

19 April 2022



Positivity

March's Performance of Services Index (PSI) held out hope of better times, in many ways. Overall, it was good to see the first expansion in 8 months, with a seasonally adjusted index reading of 51.6. There was also a positive vibe for what lies next, in that new orders/business jumped to 60.1 in March, from 55.3 in February, and 40.9 back in January. This points to an underlying resilience in demand showing through, after the initial shock of Omicron's spread – albeit with accompanying signs that the ability to meet this demand remains hamstrung. The PSI index on supplier deliveries remained weak, at 40.1 – the 20th month in a row it has been below the breakeven mark of 50.

Supply Constraints

Complaints about supply-side factors certainly remained to the fore in feedback to March's PSI, with references to "Covid/Omicron", "Red", "staffing" and "(international) supply chains". This explained why more than half of the comments in this month's PSI were marked as negative rather than positive, even though the overall PSI emerged as positive. To be sure, the component detail of March's PMI remained exceptionally patchy. But looking at the weakest of its elements, one can imagine they can gather support from the loosening of restrictions underway. NZ's traffic-light setting moved to Orange on 13/14 April, and the international border will be open to most by early May.

Back from the Abyss?

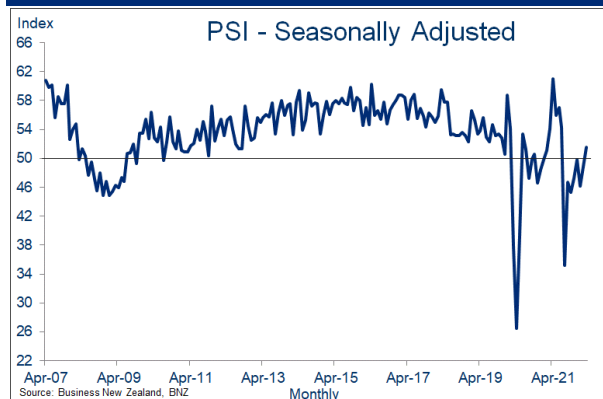
So, when we look at Cultural, Recreation & Personal, still way down in the dumps in March at 15.6, it's not hard to imagine upside for this events-driven category in the coming months. And for how long can Accommodation, Cafes & Restaurants remain well below the 50 mark, as it was in March (34.7) for the 12th month running? The weakest spot by region, by a country mile, was Otago/Southland, which is famously dependent on tourism. Can it stay as low as it was in March, namely 30.6 (unadjusted), when international tourists will soon arrive, beginning with Australians from Easter? Let's see.

Growth Implications

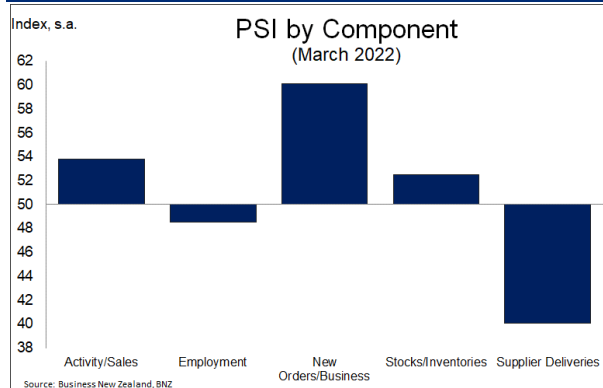
Even as it was in March, and despite some horribly weak components, the PSI supported the idea that GDP is on track to recover in Q2, after a flat-to-negative performance in Q1. This is assisted by the resilience shown in the PMI over recent months – even with what we know to be a weak patch in agricultural production/processing during Q1, which has potential to improve through the course of Q2. Melding the PSI and PMI indices, the composite PCI free-weighted production index clocked in at 52.1 in March, while the GDP-weighted version was 53.2, from 51.2 in February.

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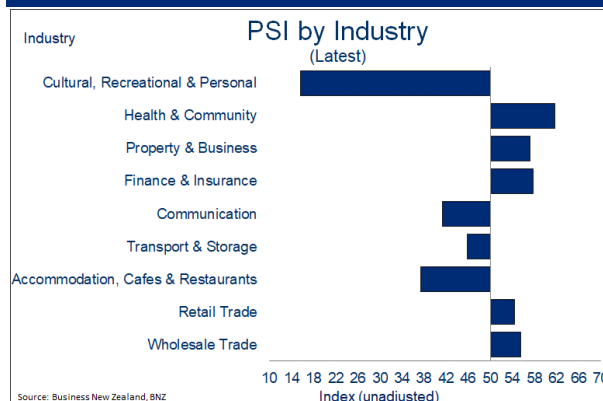
A Squeak into Positivity



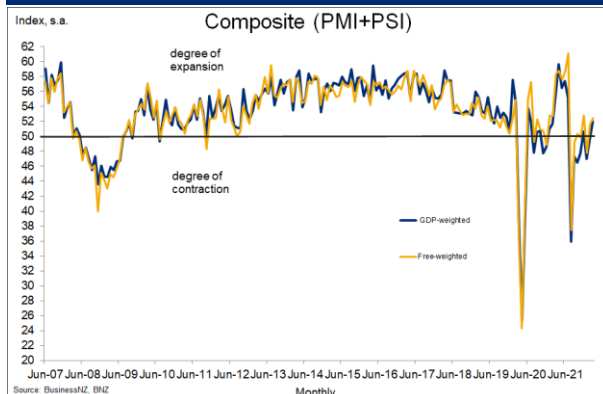
Demand More Than Supply



From Weakness to Strength?



Positive Combo



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